

VZCZCXRO4082  
RR RUEHCHI RUEHCN RUEHDT RUEHHM  
DE RUEHJA #1227/01 2040015  
ZNR UUUUU ZZH  
R 230015Z JUL 09  
FM AMEMBASSY JAKARTA  
TO RUEHC/SECSTATE WASHDC 2882  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS COLL  
RUCPDO/DEPT OF COMMERCE WASHINGTON DC  
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 02 JAKARTA 001227

SIPDIS  
SENSITIVE

DEPARTMENT FOR EAP/MTS, EEB/IFD/ODF, EEB/TRA  
DEPARTMENT PASS TO EXIM for RMORIN  
COMMERCE FOR NSHALIZEH  
USTR FOR KEHLERS AND BWEISEL  
TREASURY FOR IA-BAUKOL

E.O. 12598: N/A  
TAGS: [ELTN](#) [ECON](#) [EFIN](#) [PGOV](#) [ID](#)  
SUBJECT: GE ON TRACK IN LOCOMOTIVE MARKET

REF: A) Jakarta 1163  
B) 08 Jakarta 1236

11. (U) This message is Sensitive-But-Unclassified (SBU) and includes business sensitive information. Please handle accordingly.

12. (SBU) Summary: General Electric Transportation (GE) has two locomotive agreements and a third in the works, which could total sales of several hundred million dollars. Post and the U.S. Export Import Bank's (ExIm) commercial diplomacy have been central to facilitating the deals. According to GE reps, the government of Indonesia would likely have already bought Chinese locomotives (government-to-government) if ExIm, with Post support, had not stepped in and offered a financing package to level the playing field for competition. End Summary.

TWO NEW GE DEALS - UP TO 170 LOCOMOTIVES  
-----

13. (SBU) In July, GE successfully ramped up its engagement with PT Kereta Api (PTKA), the state-owned railway company, thanks to Post's ongoing efforts with ExIm to level the competitive playing field. Other important factors contributing to this success story were a new, forward-looking president of PTKA who came from Citigroup, GE's active high-level engagement, and a recent Ambassadorial lunch which brought the stakeholders together. The deal closest to closure is the PTKA purchase of 20 locomotives directly from GE using PTKA's annual budgets from 2008 and 2009 (10+10 locomotives). GE and PTKA publically announced this order on July 15. Assuming the contracts are finalized, the locomotives would be delivered in 2010 and 2011.

14. (SBU) The second deal has much greater potential. On July 15, GE and PTKA announced a Memorandum of Understanding (MOU) to expand their partnership and look at the universe of PTKA's needs (not just individual procurements). The MOU lays the foundation for the purchase or lease of up to 150 locomotives in the future. Over half the locomotives are planned to transport coal in South Sumatra. In the coming months, GE and PTKA will finalize this deal, tentatively valued at USD \$300-\$450 million, for a possible announcement in September/October. The locomotives would be built over the next three to five years. GE and PTKA will seek the involvement of ExIm in financing the deal as appropriate.

LONGSTANDING EXIM LOCOMOTIVE OPPORTUNITY KEEPS GE IN THE GAME  
-----

15. (SBU) The third deal, which also has possible ExIm financial backing, is furthest from closure, but has facilitated GE's continued access to the Indonesian market. The Indonesian government has planned for over four years to assist PTKA to procure 30 diesel electric locomotives using export credit financing (Ref

B), a deal valued at approximately USD \$51 million. Reports indicated that China and Korea were interested in the procurement and were offering interest rates that could not be matched commercially. In 2007 and 2008, ExIm issued a "Letter of Interest with Tied-Aid Willingness to Match Indication" for the export of these locomotives by GE. The Letter of Interest remains in effect and would allow the Indonesian government to put together a financial package which would match foreign tied aid credit for the sale. While this tender has not yet been released, thanks to Post and ExIm efforts it will be competitively bid -- not the Indonesian government's initial plan. By making clear early on in this process that ExIm was willing to match the financing terms offered on cheaper, lower quality locomotives from China or other countries, ExIm and Post were able to keep the market open for GE to advance the deals reported in paras 3 and 4.

¶6. (SBU) PTKA is a longtime, satisfied customer of GE and owns over 175 GE locomotives. GE locomotives are a favorably known product, assembled in Indonesia and include more than 20% local Indonesian content. China and other countries are interested in penetrating the market with lower cost locomotives. (Note: Indonesia is one of the few ASEAN countries that does not use Chinese locomotives. End Note.) At the Ambassador's event, Indonesian government officials said they regretted being locked into the purchase of some cheaper products and services, most notably the 10,000 MW Chinese power plants (Ref A). The government officials added that clear requirements on product quality and performance were necessary in the bidding documents because the cheapest option is not always the best.

#### A MODEL FOR COMMERCIAL DIPLOMACY

JAKARTA 00001227 002 OF 002

¶7. (SBU) Post's model for commercial diplomacy in this case included using the Ambassador's office to attract a group of policy-level host government officials responsible for financing, procurement, and technical details together with relevant private sector interlocutors. The event was focused on a discussion of challenges, strategies, and solutions to railway infrastructure needs, and not focused on a specific procurement. The Ambassador's railroad infrastructure lunch following this model successfully brought the decision makers together with the private sector to better understand Indonesian needs and the possible solutions.

HUME